



MASSACHUSETTS PORT AUTHORITY
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MASSPORT'S FINANCIAL RECOVERY PLAN

AUGUST 6, 2002

This is one of a series of letters designed to serve as a progress report on the Authority's experience in responding to the financial situation brought about by the recession and the events of September 11th.

New Leadership: On April 11, 2002, Craig P. Coy was appointed as Massport's Executive Director and CEO. His credentials as a graduate of the U.S. Coast Guard Academy and Coast Guard pilot, White House fellow and advisor on counter-terrorism, and as well as an MBA from Harvard Business School and experience as a CEO in the private sector, fully satisfied the Authority's goals of securing an experienced, professional manager for Massport. Continuing the trend of selecting individuals with excellent private sector expertise, John Quelch, a dean of the Harvard Business School who has served on numerous corporate boards, was appointed by Governor Swift to serve as Chairman of Massport's Board, effective July 2002.

Financial Health: In October 2001, Massport's Board revised the Authority's revenue and operating budgets as part of the Financial Recovery Plan. That plan was based upon the assumption that, on average, FY2002's passengers at Logan would be 70% of the originally expected FY2002 levels, and that parking revenue would be 65% of the prior year. The resulting FY2002 revenue projection was \$305.6 million (down from \$364 million). The revised operating fund budget for FY2002 was \$203.3 million (down from \$226.6 million).

Massport is now projecting actual FY2002 revenues of \$323.7 million, approximately \$18.1 million more than was projected last fall. In addition to generating additional revenues, Massport also succeeded in holding down operating costs. Thanks to decisive actions, and a mild winter, Massport is now projecting actual expenses of \$201 million, nearly \$2.3 million less than the earlier forecast. Together, these factors yielded a contribution to the Improvement and Extension (I&E) Fund of an estimated \$24 million. These resources are expected to be directed toward important capital projects to enhance security.

The Financial Recovery Plan also succeeded on a cash basis. With the sole exception of October, cash collections for each month of FY2002 have been sufficient to cover all debt service deposits, make the revised deposits to the Maintenance Reserve Fund, the Payment in Lieu of Tax Fund and to make a positive contribution to the I&E Fund. As of June 30th, the balance in the I&E fund was \$163.7 million and the balance of the PFC Capital Fund was \$30.8 million. On an unaudited basis, cash collections (excluding PFC's) for FY2002 are only 4.4% below FY2001.

During FY02, the Government Finance Officers Association awarded the Certificate of Achievement for Excellence in Financial Reporting to both Massport and Massport's Retirement System. We are the first and only public authority in Massachusetts to achieve this prestigious recognition.

Key Statistics: As noted above, unaudited gross and net revenues for FY2002 exceeded October's predictions. While FY2002's 22 million passengers were down 19% from the FY2001 passenger counts, June's passengers were only 10% below the comparable figure for 2001. Under the October Financial Recovery Plan, parking revenue was projected to be 35% below original expectations for FY2002. On a monthly basis, parking revenues were below FY2001 in September and October by more than 35%. After a November rate increase and the January reopening of the Terminal B garage, parking revenues were down only 6% in the last two weeks of January. April, May and June FY2002 parking revenues exceeded the revenues for each of the comparable months in FY2001. Unaudited FY2002 PFC's were 19% below FY2001. Landed weights for FY2002 were 20% below predictions and 14% below FY2001. Unaudited concession revenue for FY2002, including rental car fees, was 7% below FY2001.

FY2003 Budget: The FY2003 budget approved in June continues the work of the Financial Recovery Plan. Projected revenues (excluding PFC's) of \$368.5 million are within 1% of the original FY2002 revenue budget. The operating budget of \$225.1 million is below the original (or pre-9/11) FY2002 budget. The operating budget provides over \$12.5 million in new funds for security including a \$5.25 million contingency for security costs not yet identified. The budget funds a three-fold increase in insurance costs, including nearly \$2 million for terrorism coverage. The budget holds the line on positions, salaries, expenses and overtime. The budget also projects that \$32.7 million will flow into the I&E fund in the coming year, providing an important source of capital funding for security enhancements

Security Initiatives: Since the fall, Massport has been successful in implementing many new initiatives for improved security. An Anti-Terrorism Unit has been established with expertise in tactical weapons and operations. Vehicles entering the ramp and apron areas now carry transponders enabling the guards to know what type of vehicle to expect, aiding them in ensuring that the permit has not been transferred to an unauthorized car. Logan's federal Transportation Security Administration (TSA) security director, George Naccara, is on board and the TSA and Massport staff are working together closely. In June 2002, Logan became the first U.S. airport to gain TSA approval for its hold baggage screening program. Less than three weeks later, construction began on the terminal retrofits required to house the TSA's new baggage screening equipment and personnel. Massport is determined to do its part to enable the TSA to achieve the monumental goal of meeting the statutory December 31, 2002 deadline for screening all checked baggage.

Capital Construction: At the same time that Massport is constructing security related projects, progress has continued on the Logan Modernization Program. The new walkway between Central Garage and Terminal B opened in April. The walkway from the garage to Terminal C opened on July 26th. Delta has commenced construction of the \$400 million Terminal A project. And Logan's new outbound roadway opened on August 3rd.

Investor Relations: Massport has established an Investor Relations Section on its web page. This section can be accessed from www.massport.com, by clicking on "About Massport" and then on "Who We Are", and contains pdf files of the Annual Statement of Financial Information and Statistical Data for FY2001 and the Consolidated Annual Financial Report (CAFR) for FY2001. Questions or requests for additional information should be directed to Leslie A. Kirwan, Director of Administration & Finance at 617-568-1035 or lkirwan@massport.com or to Betsy Taylor, Director of Finance at 617-568-1047 or btaylor@massport.com.
